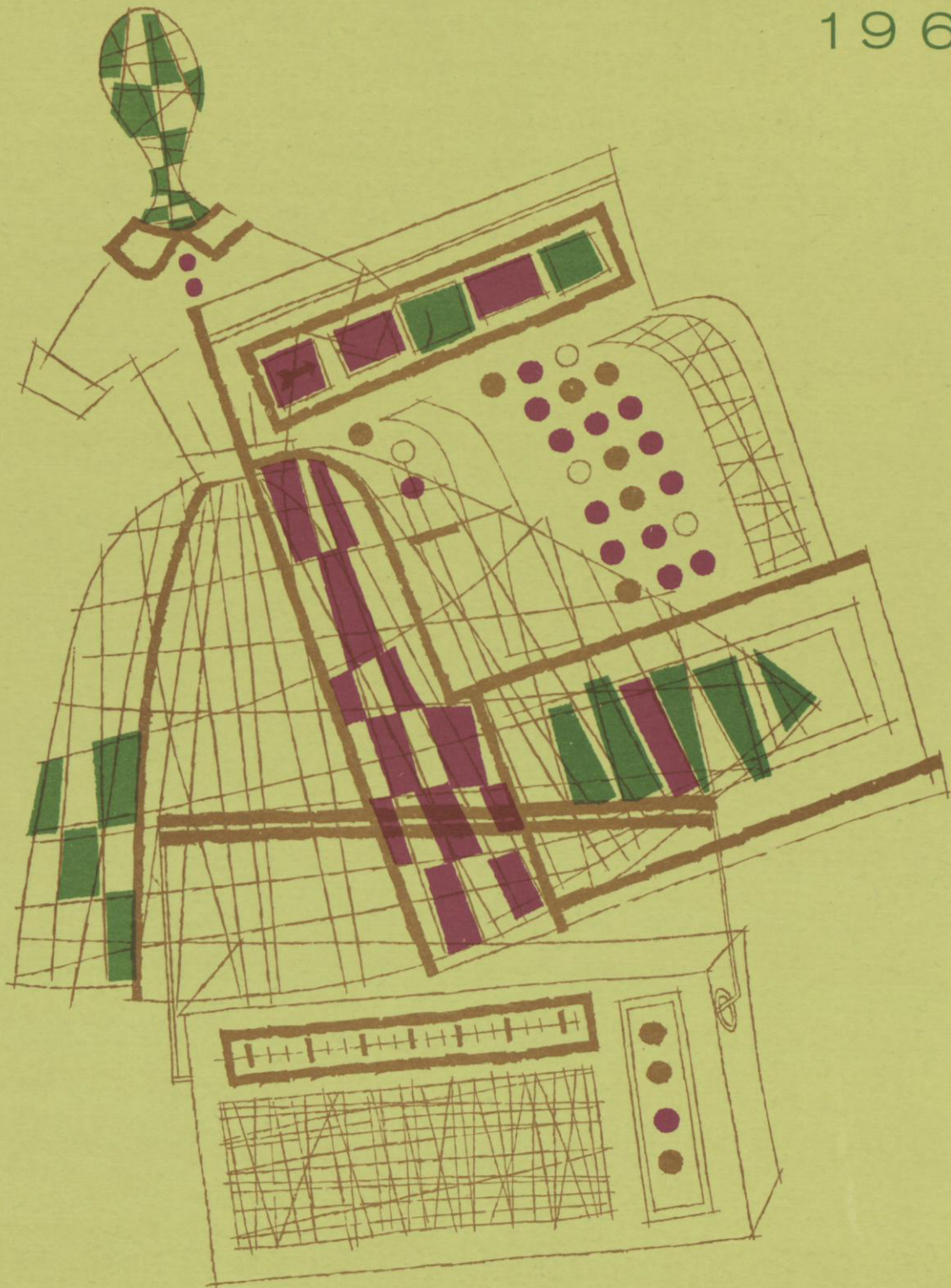


INTERSTATE DEPARTMENT STORES, INC.
ANNUAL
REPORT
1966



Discount Stores

WHITE FRONT STORES **California** • Anaheim • Canoga Park • Concord • Costa Mesa • Covina • Downey • La Mesa • East Los Angeles • Los Angeles* • West Los Angeles • Oakland • Ontario • Pacoima • Sacramento • San Jose • San Bernardino • Sunnyvale • Torrance • Van Nuys • Fresno • So. Sacramento • So. San Francisco • San Diego

TOPPS STORES **Connecticut** • Berlin • Fairfield • Hartford—Windsor • East Hartford • Middletown • West Haven • **Illinois** • Chicago—Arlington Heights • Chicago—LaGrange • Chicago—Morton Grove • Chicago Heights • Elgin • Joliet • Waukegan • **Indiana** • Gary • Greenwood • Highland • Indianapolis—38th Street • Indianapolis—Speedway • **Kentucky** • Louisville—Hikes Point • **Maryland** • Baltimore—Dundalk • Baltimore—Perring Parkway • Baltimore—Pike Park Mall* • **Massachusetts** • Fall River (Kerr Mill Bargain Center) • Springfield* • West Springfield • **Michigan** • Detroit—Oak Park • Detroit—Redford • Detroit—Southgate • Detroit—Warren • Detroit—Wayne • Kalamazoo • Lansing • **New Jersey** • Totowa, Rt. 46 • **New York** • Albany • Buffalo—Cheektowaga • Buffalo—Tonawanda • Rochester • Rochester—Greece* • **Ohio** • Canton • Canton—Stark • Cleveland—Maple Heights • Cleveland—Mayfield Heights • Cleveland—Parma Heights • Toledo • **Wisconsin** • Green Bay • Kenosha • Madison

CHILDREN'S SUPERMART STORES **Maryland** • Adelphi • Marlow Heights • Rockville • **Virginia** • Bailey's Crossroads

**Opened Spring, 1967*

Conventional Department Stores

Illinois • Carroll House, Belleville • Peoria Dry Goods, Peoria • Rockford Dry Goods, Loves Park • Rockford Dry Goods, Rockford • Waukegan Dry Goods Co., Waukegan • **Indiana** • The Evansville Store, Evansville • The Evansville Store, Lawndale • Stillman's, Fort Wayne • Stillman's, South Gate • Hill's, Marion • Stillman's, Muncie • Hill's, Vincennes • **Kentucky** • Jefferson Dry Goods, Louisville • Paducah Dry Goods Co., Paducah • **Michigan** • George W. Toeller Co., Battle Creek • The Fair, Flint • The Fair, North Flint • Stillman's, Jackson • Carroll House, Port Huron • **New York** • Boston Store, Latham • Boston Store, Massena • Stanley's, Troy • Boston Store, Utica • **Ohio** • The Boston Store, Springfield • **Pennsylvania** • Carroll House, Williamsport • **South Carolina** • Bailes, Anderson • **Tennessee** • The Knox, Knoxville • **Vermont** • Economy Department Store, Rutland • **West Virginia** • The Huntington Store, Huntington • **Wisconsin** • Fond du Lac Department Store, Fond du Lac • Hill's Department Store, Sheboygan

INTERSTATE DEPARTMENT STORES, INC.

Annual Report 1966

Financial Highlights

	1966	1965
Total Sales	\$505,017,000	\$433,632,000
Net Income before Taxes	17,340,000	14,434,000
Net Income after Taxes	9,790,000	7,934,000
Earnings Per Share*	2.77	2.33
Dividends Per Share—Cash*57	.49
—Stock Dividends	4%	4%
Working Capital	\$ 37,641,000	\$ 38,770,000
Stockholders' Equity	57,843,000	48,648,000

*Based on average number of shares for each year, adjusted to give effect to all stock dividends distributed through January 31, 1967.

To Our Stockholders

This has been a year of significant milestones for Interstate: We passed the half-billion dollar mark in sales; over 100 stores are now in operation; and we acquired a promising new division. Equally important, our net earnings for the 1966 fiscal year reached a record level.

Sales for the year ended January 31, 1967, rose to an historic high of \$505 million, a 16.5 per cent increase over our previous sales record of \$433.6 million, set in our 1965 fiscal year, which ended January 31, 1966. Both the contributions of new stores and gains posted by established units can be credited for our entry into the exclusive "Half-Billion Dollar Club."

The increase in sales this year of \$71.4 million is greater than our entire yearly sales total of \$66 million only eight years ago when we entered the discount retailing field.

*Earnings set new record—
rise 23 per cent*

Net earnings after taxes this past year increased to almost \$9.8 million, a new record which is 23 per cent higher than 1965 net earnings of \$7.9 million. The 1966 earnings were equal to \$2.77 per share, compared to 1965 earnings of \$2.33 per share. The 1966 earnings per share are based on an average of 3,532,497 shares outstanding, while the prior year figure is based on an average of 3,383,367 shares outstanding, after giving effect to all stock dividends distributed through January 31, 1967. The increase in the number of shares outstanding was due largely to the conversion of \$1,359,500 of Convertible Subordinated Debentures into 111,305 shares of Common Stock, and the distribution of a four per cent stock dividend during the year.

Net earnings after taxes were equal to 1.9 per cent of sales, which compares with 1.8 per cent in 1965 and 1.5 per cent in 1964. This is not only our best performance to date, but it is especially notable in a year of rising labor costs, higher interest rates and higher taxes.

Quarterly dividend increased

Once again, the quarterly dividend rate has been increased — this time from 13 cents a share to 15 cents a share, effective with the February 15th, 1967 payment. This marks the 27th year of consecutive cash dividends for your Company. At the same time, Interstate paid another four per cent stock dividend, its ninth consecutive annual stock dividend.

We already have announced that our next major goal is a billion dollars in yearly sales by 1972. We turn toward that goal from a strong financial base. Stockholders' equity is now \$57.8 million, an increase in the past year of \$9.2 million. Convertible Subordinated Debentures outstanding at year-end amounted to \$1,544,600, which compares with \$2,904,100 a year ago.

Opening of 10 new units and an important acquisition this year give Interstate more than 100 stores now in operation.

Our aim is to become a major retailing factor in each community we serve. Last year in our Topps discount division, the addition of two stores in the Detroit, Mich. area—one in Southgate, the other in the Wayne section—gave us a total of five stores in that area. In the Indianapolis, Ind. area, a third store was opened, while we added second units in Canton, Ohio and in Baltimore, Md.

Topps also entered the Gary, Ind. and Kenosha, Wis. markets during 1966 with its first store in each community.

These new 85,000 square-foot stores have been planned for local community needs. Our Topps stores are being designed or modernized to conform with an overall plan aimed at achieving a uniform national identity for our organization. In today's mobile society, where the American family is reported to move on the average of once every five years, it is vital to give our customers the opportunity to recognize a strong and reliable retailing friend as they enter a new community.

*Now, more than 100
Interstate stores*

On the West Coast, our White Front discount division opened two new stores in the past year. Both located in the rapidly growing Southern California area, one was opened in Costa Mesa and the other in Downey. Each of these stores has an overall size of 150,000 square feet, including a 30,000 square-foot supermarket.

With 23 units now in operation and 1966 sales of over \$258 million, our White Front division is in itself one of the nation's major retailing businesses. Before we entered the discount retailing business in 1959, White Front's two original stores did approximately \$20 million volume.

In 1966, White Front received the Family Panel of America's Good Merchandising Award, another indication of its contributions to Interstate's strength.

Revitalization of our conventional department store division is now well under way. We had entered discount retailing as long-established merchandisers, with 46 conventional department stores back in 1958. Since then, we have closed down or sold the marginal operations; each of our 31 conventional stores today is a profitable member of the Interstate family.

*Conventional department
stores revitalized*

During the past year, we opened our second suburban store in Flint, Mich. Originally planned to be a 90,000 square-foot store, this unit was opened with 120,000 square feet. Named "The Fair," after its sister unit in Flint, the new store carries a broad selection of nationally famous brands, principally in soft lines.

Fire destroyed two stores last year. One was the Topps discount

Major toy retailer acquired

store in Addison, Ill.; the other, the Aurora Dry Goods store in Aurora, Ill. Plans are under way to build new stores to replace these. We also leased out a former Topps unit in Brockton, Mass.

During the year, your Company acquired Children's Supermart, Inc., which now operates four discount toy stores in the Washington, D.C. area.

Children's Supermart is one of the country's most successful toy merchandisers. Each of its units is a free-standing store of 25,000 square feet—the size of a supermarket—with ample parking. These stores offer a wide assortment of toys, children's books and records, and juvenile furniture on a self-service basis. Their sales per square foot are believed to be among the highest in the toy retailing industry.

A 50,000 square-foot warehouse at Beltsville, Md., supplies these stores, which are serviced by their own fleet of trucks.

Interstate already is a major toy retailer through the toy departments of our White Front and Topps stores. Toys have become a year-round business, rather than a strictly seasonal operation.

Extensive store openings for 1967

The next steps toward our billion-dollar sales goal are being taken through our store-opening and expansion plans.

Our Topps division has already opened this spring a third Baltimore area store at Pike Park Mall; a second Rochester area store in Greece, N. Y.; and a second store in Springfield, Mass. A fourth Baltimore store will be opened at Timonium, Md.

Topps plans for later this year call for opening a fourth store in the Cleveland, Ohio region; a third store at Buffalo, N. Y. and a second unit in Louisville, Ky. Initial ventures are scheduled in Terre Haute, Ind., Ypsilanti, Mich., and Columbus, Ohio.

On the West Coast, we recently opened a completely rebuilt store in the Watts section of Los Angeles, where our original store was destroyed in the 1965 riots. We are the first national firm to rebuild in any of the nation's riot-torn areas. This represents our responsibility to, and faith in, the community where White Front first flourished.

Expansion of West Coast operations planned

Another major step toward fulfillment of our growth plans is a decision to extend our West Coast operations outside of California. We are planning to open 150,000 square-foot discount department stores in Seattle and Tacoma, Wash. The first unit in each of these cities is scheduled to open by the end of this year.

Our conventional department store division is also planning to expand its business with a third suburban store in Flint, Mich. scheduled to open early in 1968. Meanwhile, we are planning new parking facilities for customers and a new large furniture annex for our "Boston Store," the dominant retailer in Utica, N. Y.

Enlargement is also scheduled for the "Boston Store" in Latham, near Albany, N. Y., and at the "Evansville Store" Lawndale unit in Evansville, Ind.

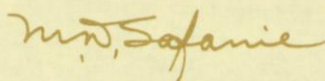
Our Children's Supermart discount toy division has a fifth unit scheduled for fall opening in Fairfax, Va., in the Washington, D.C. area, with a sixth store in this region planned for late 1967 or early 1968.

Passing the half-billion dollar sales mark, we foresee continued vitality in discount retailing, which has given impetus to our growth since 1958. We have taken the lead in pointing out that many geographical areas of the country are still under-stored by discount retailers. Interstate now is actively exploring a number of additional regions.

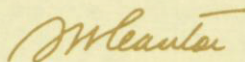
We are also beginning to make significant penetration into the vast market for soft lines. This past year, Interstate invested another \$3.2 million in store improvements, primarily to make our apparel departments more attractive. We are making other improvements in soft lines packaging, presentation and advertising in order to realize our potential in these markets.

With a favorable outlook for the discount retailing industry, we expect that our own sales will show a substantial increase this year. We also look for proportionate increases in our earnings.

For the Interstate organization, achieving the half-billion dollar sales mark is proof of the capabilities of the thousands of men and women who have participated in our success. We are appreciative of their efforts in achieving this goal; we are confident of their ability to set new records in the future.



Murray D. Safanie
Chairman



Sol W. Cantor
President

Future growth predicted

DIVIDEND AND SHARE GROWTH — FOR EACH 100 SHARES OWNED IN 1958

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Shares Owned*	100	103	106	111	339	352	366	761	791	822
Stock Dividends	3%	3%	5%	2%	4%	4%	4%	4%	4%	—
Stock Splits	—	—	—	3-for-1	—	—	2-for-1	—	—	—
Yearly Dividend Rate	.625	1.20	1.20	.45	.50	.60	.70	.45	.52	.60
Dividends Paid†	62.50	123.60	126.30	148.35	168.77	209.25	253.75	352.55	423.21	—
Cash for Fractions	—	—	3.08	14.71	32.35	15.22	3.90	11.74	22.54	—

*At beginning of calendar year.

†On shares accumulated from original 100 shares.



Financial Statements

Growing Strength at the Half-Billion Mark

It was at the close of 1958 that 47-unit Interstate Department Stores, Inc., after testing some earlier concepts of discounting, made its first major move into the discount retailing field with the acquisition of two White Front stores. Today, we operate over 100 stores in two major networks of discount department stores, a new toy discount division and a profitable conventional department store business.

Our sales then were less than \$66 million; in the ensuing eight years, they have grown over 660 per cent. Earnings per share have increased nearly fifteen-fold from 18 cents to \$2.77 a share, based on the average number of shares outstanding during 1966.

Total assets today are over \$130 million, compared to only \$26 million then. Our stockholders' equity has increased to more than \$57.8 million from \$15.6 million.

Since 1958, we have paid our shareholders more than \$8 million in cash dividends. In addition, stock dividends have been paid in each year, and there has been a three-for-one stock split and a subsequent two-for-one split. One hundred shares of stock owned then have increased to 822 shares today.

The number of employees has risen from 2,600 in 1958 to over 10,500 at present.

As it passes the half-billion dollar sales mark, Interstate is pledged to continued service to its communities, continued opportunity for its employees, and continued growth for its shareholders.

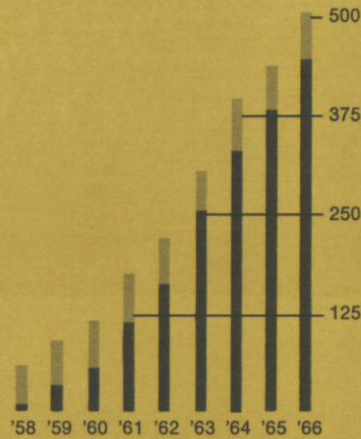
INTERSTATE DEPARTMENT STORES, INC.

and Subsidiary Companies

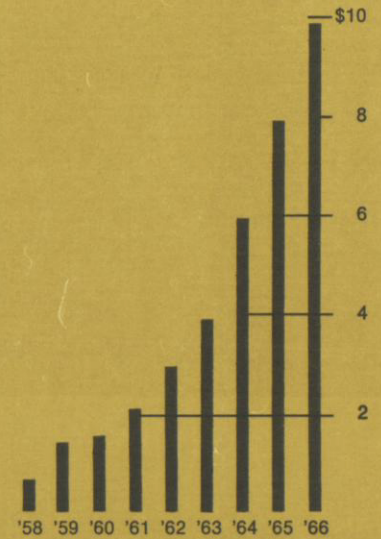
Interstate's Growth at a Glance

TOTAL SALES (in millions)

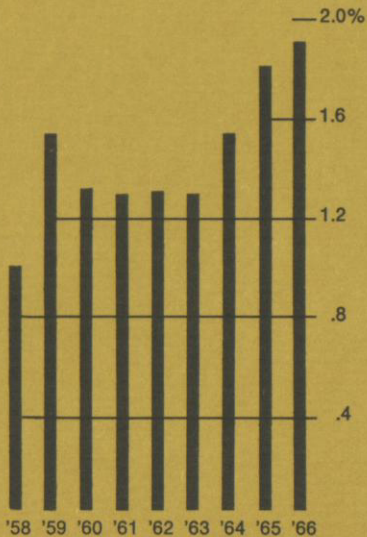
Conventional Stores
Discount Stores — \$625



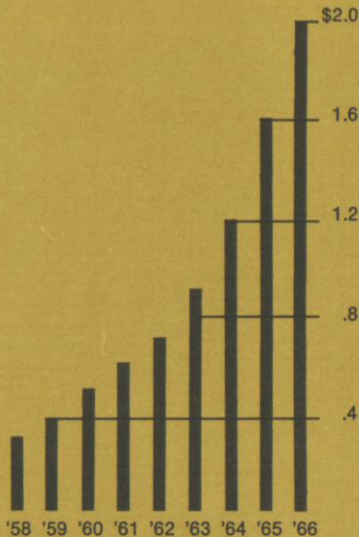
NET EARNINGS (in millions)



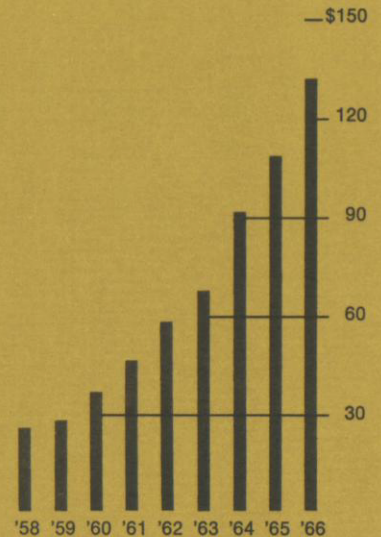
RETURN ON SALES (in per cent)



DIVIDENDS (in millions)



TOTAL ASSETS (in millions)



Nine Year Financial Review

OPERATIONS

	1966	1965	1964
Total Sales	\$505,016,994	\$433,631,517	\$384,867,747
Discount Store Sales	444,222,763	377,426,161	330,691,079
Conventional Store Sales	60,794,231	56,205,356	54,176,668
Net Income before Taxes	17,339,845	14,433,583	11,122,469
Net Income after Taxes	9,789,845	7,933,583	5,922,469
Earnings Per Share*	2.77	2.33	1.83

FINANCIAL

Working Capital	\$ 37,640,560	\$ 38,769,570	\$ 37,618,227
Current Ratio	1.6 to 1	1.9 to 1	2.1 to 1
Total Assets	133,014,696	108,366,317	91,287,663
Fixed Assets	27,380,059	19,158,199	12,925,583
Long Term Debt	13,558,431	13,792,732	15,580,801
Stockholders' Equity	57,843,083	48,648,179	40,639,073
Dividends Per Share—Cash*57	.49	.37
—Stock Dividends	4%	4%	4%
—Stock Splits	—	—	2-for-1

STORES

Discount	70	59	58
Conventional	31	31	32
Total	101	90	90

*Based on average number of shares for each year, adjusted to give effect to 2-for-1 stock split in 1964 and 3-for-1 stock split in 1961 and all stock dividends distributed through January 31, 1967.

INTERSTATE DEPARTMENT STORES, INC.
and Subsidiary Companies

1963	1962	1961	1960	1959	1958
\$311,153,078	\$222,807,320	\$165,219,039	\$114,311,355	\$ 90,315,963	\$ 65,674,273
256,375,366	167,481,253	108,462,276	55,255,476	26,620,881	687,783
54,777,712	55,326,067	56,756,763	59,055,879	63,695,082	64,986,490
7,122,921	5,249,596	3,829,413	2,385,804	2,309,302	1,005,666
3,907,921	2,909,596	2,079,413	1,490,804	1,394,302	645,666
1.37	1.03	.74	.55	.54	.26
\$ 28,178,420	\$ 14,786,485	\$ 14,904,700	\$ 10,661,936	\$ 12,798,724	\$ 13,626,127
2.1 to 1	1.5 to 1	1.9 to 1	1.7 to 1	2.6 to 1	3.6 to 1
68,610,479	59,670,000	45,268,407	37,554,825	28,811,113	26,072,287
9,557,141	9,780,592	8,340,302	7,698,748	6,875,788	6,504,703
15,619,275	5,962,671	6,960,967	3,336,816	3,749,235	4,978,212
26,363,449	23,218,931	20,620,591	18,917,757	17,051,348	15,586,307
.27	.21	.18	.15	.15	.12
4%	4%	2%	5%	3%	3%
—	—	3-for-1	—	—	—
51	44	25	20	5	1
34	36	37	41	46	46
85	80	62	61	51	47

Consolidated Statement of Source and Application of Funds

	1966 (Year Ended Jan. 31, 1967)
Source of Funds	
Net earnings	\$ 9,789,845
Depreciation and amortization	2,026,376
Increase in deferred Federal income taxes	493,623
Debentures converted into Common Stock—net of related expenses	1,321,097
Decrease in other assets and deferred charges	754,848
Exercise of employee stock options	85,291
Decrease in working capital	1,129,010
	<u>\$15,600,090</u>
Application of Funds	
Cash dividends	\$ 2,001,329
Fixed assets acquired under modernization and expansion program—net	7,419,963
Decrease in long-term debt-net (including \$1,359,500 of Debentures converted into Common Stock)	1,939,710
Cash consideration for purchase of a group of corporations, in excess of working capital acquired	4,239,088
	<u>\$15,600,090</u>

See accompanying notes

Consolidated Statement of Earnings

	1966 (Year Ended Jan. 31, 1967)	1965 (Year Ended Jan. 31, 1966)
Net Sales:		
Owned departments	\$365,138,988	\$313,160,115
Leased departments	139,878,006	120,471,402
	<u>505,016,994</u>	<u>433,631,517</u>
Cost of Sales (including certain buying, occupancy and distribution expenses)	414,918,472	358,193,850
	<u>90,098,522</u>	<u>75,437,667</u>
Selling, General and Administrative Expenses	74,587,034	62,072,685
	<u>15,511,488</u>	<u>13,364,982</u>
Other Income—Net	2,534,124	1,799,151
	<u>18,045,612</u>	<u>15,164,133</u>
Interest Expense	705,767	730,550
Earnings before Federal Income Taxes	<u>17,339,845</u>	<u>14,433,583</u>
Provision for Federal Income Taxes (including \$682,000 and \$620,000, respectively, of deferred Federal income taxes) (Note D) ...	7,550,000	6,500,000
Net Earnings	<u>\$ 9,789,845</u>	<u>\$ 7,933,583</u>

Depreciation and amortization included above amount to \$2,026,376 (1966) and \$1,597,837 (1965).

Consolidated Balance Sheet

ASSETS	1966 (Jan. 31, 1967)	1965 (Jan. 31, 1966) (Note I)
Current Assets:		
Cash (including Certificates of Deposit) . . .	\$ 9,839,516	\$ 13,246,263
Short-term investments—at cost	3,172,659	2,000,000
Accounts receivable:		
Customers (net of reserves of \$604,999 and \$525,342, respectively)	9,148,226	8,736,353
Other	6,018,864	5,918,929
Merchandise inventories (Note A)	67,214,905	50,958,679
Prepaid expenses	2,005,863	2,474,666
Total Current Assets	97,400,033	83,334,890
Other Assets (Note H)	895,311	1,606,919
Fixed Assets—at cost (net of reserves of \$8,212,888 and \$6,198,165, respectively) (Notes B and C)	27,380,059	19,158,199
Deferred Charges (including pre-opening ex- penses of \$414,516 and \$441,931, respectively)	655,243	672,111
Intangibles Applicable to Subsidiaries Acquired (Note H)	6,684,050	3,594,198
	<u>\$133,014,696</u>	<u>\$108,366,317</u>

See accompanying notes

INTERSTATE DEPARTMENT STORES, INC.
and Subsidiary Companies

LIABILITIES	1966 <u>(Jan. 31, 1967)</u>	1965 <u>(Jan. 31, 1966)</u> <small>(Note I)</small>
Current Liabilities:		
Current installments of long-term debt (Note C)	\$ 664,887	\$ 569,161
Accounts payable—trade	42,219,620	27,834,976
Accrued expenses and other liabilities	8,972,493	8,180,968
Taxes withheld and accrued, other than Federal income taxes	2,792,213	2,832,878
Accrued Federal income taxes (Note D) ...	<u>5,110,260</u>	<u>5,147,337</u>
Total Current Liabilities	59,759,473	44,565,320
Deferred Federal Income Taxes (Note D)	1,853,709	1,360,086
Long-term Debt (Note C)	<u>13,558,431</u>	<u>13,792,732</u>
Total Liabilities	75,171,613	59,718,138
Stockholders' Equity (Notes C, E, F and H)	57,843,083	48,648,179
Lease Commitments and Other Comments (Notes G and H)		
	<u><u>\$133,014,696</u></u>	<u><u>\$108,366,317</u></u>

Consolidated Statement of Stockholders' Equity

	1966 (Year Ended Jan. 31, 1967)	1965 (Year Ended Jan. 31, 1966) (Note I)
Retained Earnings (at beginning of year):		
As previously reported	\$17,638,113	\$15,978,878
Adjustment (Note D)	515,663	515,663
As restated	17,122,450	15,463,215
Net Earnings	9,789,845	7,933,583
	<u>26,912,295</u>	<u>23,396,798</u>
Dividends Declared (Note E):		
Cash	1,926,258	1,549,210
Stock	3,844,822	4,725,138
	<u>5,771,080</u>	<u>6,274,348</u>
Retained Earnings (at end of year) (Note C) ..	21,141,215	17,122,450
Capital Surplus (Notes C, E and F)	31,750,830	26,833,159
Common Stock (stated at par value of \$1 per share, plus \$1,271,306 retained as Capital by resolution of the Board of Directors) (Notes C, E and F):		
	Shares	
	1966	1965
Authorized	6,500,000	6,500,000
Issued	3,617,669	3,368,972
To be issued	141,295	131,524
	<u>3,758,964</u>	<u>3,500,496</u>
	5,030,270	4,771,802
	<u>57,922,315</u>	<u>48,727,411</u>
Less: Treasury Stock—at cost—14,976 shares ..	79,232	79,232
Stockholders' Equity	<u>\$57,843,083</u>	<u>\$48,648,179</u>

See accompanying notes to financial statements.

Notes to Financial Statements

Note A—Merchandise inventories are stated at the lower of cost or market based principally, as to inventories at stores (\$50,669,594), upon the retail method.

Note B—Fixed assets comprise the following:

Land, land improvements and buildings	\$ 6,712,246
Furniture and equipment	20,180,343
Leaseholds and leasehold improvements	8,700,358
	<hr/> 35,592,947
Less: Reserves for depreciation and amortization	8,212,888
	<hr/> <hr/> \$27,380,059

Note C—Long-term debt consists of the following:

5 ³ / ₈ % Notes payable-insurance companies	\$ 9,500,000
4 ⁵ / ₈ % Convertible Subordinated Debentures due August 1, 1981	1,544,600
Other	3,178,718
	<hr/> 14,223,318
Less: Current installments	664,887
	<hr/> <hr/> \$13,558,431

The 5³/₈% Notes are payable \$500,000 a year through 1976 and \$600,000 a year from 1977 to 1983; the unpaid balance is due July 15, 1983.

The indenture applicable to the Debentures requires that the Company pay into a sinking fund, during the years 1968 to 1980, an amount sufficient to redeem each year \$275,000 principal amount of Debentures; this amount is subject to reduction, at the option of the Company, for Debentures previously converted which aggregate \$4,314,800 as at January 31, 1967. The Debentures may be converted into Common Stock at a conversion price of \$11.75 a share. During the year, \$1,359,500 of Debentures were converted into 111,305 shares of Common Stock,

resulting in increases in Common Stock of \$111,305 and in Capital Surplus of \$1,209,792 (net of related unamortized debt discount and expense). Based upon the foregoing conversion price, the outstanding Debentures at January 31, 1967 may be converted into a maximum number of 131,455 shares of Common Stock.

Formulae contained in certain of the loan agreements limit the aggregate amount of cash dividends to approximately \$18,000,000 as at January 31, 1967.

Included in other long-term debt above are obligations which are collateralized by fixed assets having a depreciated cost of \$4,150,000.

Note D—The balance of Retained Earnings at January 31, 1965 has been restated from amounts previously reported as a result of a settlement reached with the Treasury Department in 1966 relating to the fiscal years ended in 1960 and 1961. Management has estimated the effect of these adjustments for the subsequent years and accordingly, Retained Earnings has been charged with a provision for Federal and state income taxes and interest aggregating \$515,663 for the six years ended January 31, 1965. Tax provisions for the years ended January 31, 1966 and 1967 have been computed on the basis of the aforementioned settlement.

The accompanying financial statements are subject to final determination of Federal, state and local taxes.

Note E—The 4% stock dividend aggregated \$3,844,822, based upon market quotation, of which \$75,071 is payable in cash in lieu of fractional shares. The aggregate par value (\$141,295) of the shares issuable in connection with such stock dividend has been credited to Common Stock and the balance (\$3,628,456) has been credited to Capital Surplus.

Note F—Under the Company's stock option plan, options for 18,505 shares may be granted to September 1971 at not less than fair market value at date of grant; the options would be exercisable 25% a year (on a cumulative basis)

commencing one year from date of grant and would expire five years from date of grant.

During the year, options (1) were granted for 2,160 shares, (2) lapsed for 697 shares and (3) were exercised for 5,868 shares resulting in credits to Common Stock (\$5,868) and Capital Surplus (\$79,423). At January 31, 1967, options were outstanding for the purchase of 147,572 shares at prices ranging from \$13.48 to \$27.97 a share.

Note G—Minimum annual rentals of real and personal property leased to the Company or to its subsidiaries amount to approximately \$11,200,000 plus, in certain instances, additional rentals based upon sales and charges for real estate taxes, insurance, etc. Of the foregoing amount, \$2,550,000 expires prior to 1982, \$4,850,000 expires between 1982 and 1986, and \$3,800,000 expires after 1986.

Note H—The Company has fifty percent interests in a number of corporations and joint ventures, whose functions are to acquire properties, construct store buildings thereon and lease same to the Company; the investment therein, amounting to an aggregate of \$271,000 as at January 31, 1967, is included in Other Assets. As at April 13, 1967, the Company had guaranteed bank indebtedness of one of the corporations amounting to \$2,795,000; it is anticipated that this indebtedness will be refinanced on a long-term basis not subject to such guarantee. In addition, the joint ventures had \$4,000,000 of mortgage indebtedness outstanding as at January 31, 1967 and had received commitments aggregating \$5,000,000 for additional mortgage financing.

Included in Intangibles Applicable to Subsidiaries Acquired is \$3,089,852 arising during the latter part of the year from the purchase for cash of a group of corporations in the retail toy business. The Company may be required to pay additional amounts not to exceed \$1,650,000, provided specified net earnings are achieved during the five years ending January 31, 1972.

At January 31, 1967, the Company is contingently liable for \$1,254,529 under an accommodation note (due December 1, 1988) that it issued in connection with a sale-leaseback during a prior year. This contingent liability is subject to reduction to the extent that the lessor makes required payments against a note issued by it.

In the opinion of management, pending litigation will not materially affect the accompanying consolidated financial statements.

Note I—The financial statements as at and for the year ended January 31, 1966 (restated for the effect of the retroactive adjustment in Note D) are shown for comparative purposes only. Reference should be made to the previously issued annual report for the Accountants' Report and notes pertaining to those financial statements.

ACCOUNTANTS' REPORT

To the Board of Directors
Interstate Department Stores, Inc.
New York, N.Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc., and subsidiary companies as at January 31, 1967, and the related consolidated statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity, together with the notes to financial statements, present fairly the consolidated financial position of Interstate Department Stores, Inc., and subsidiary companies at January 31, 1967, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year—as restated (see Note I). It is also our opinion that the accompanying consolidated statement of source and application of funds presents fairly the information shown therein.

S. D. LEIDESDORF & CO.
Certified Public Accountants

New York, N.Y.
April 13, 1967

INTERSTATE DEPARTMENT STORES, INC.

DIRECTORS

Sam J. Abend	M. Lester Mendell
Sol W. Cantor	Albert Parker
Harry Epstein	Paul D. Preger
Barry Golden	Murray D. Safanie
Julian Lavitt	Myron Schmittlinger
Selwyn Lemchen	Harold J. Szold
Emanuel P. Lewis	

OFFICERS

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Sol W. Cantor, President
Sam J. Abend, Vice President
Group Manager, Department Store Division
Harry Epstein, Vice President
General Manager, White Front Division
Barry Golden, Vice President
Real Estate
David Hughes, Vice President
Administration
Julian Lavitt, Vice President
General Manager, Department Store Division
Selwyn Lemchen, Vice President
General Merchandise Manager
Myron Schmittlinger, Vice President
Director of Stores, Topps Division
Albert Parker, Secretary
Edward C. Schenkel, Treasurer and Ass't. Secretary

TRANSFER AGENT

Bankers Trust Company, N. Y.

REGISTRAR

Manufacturers Hanover Trust Co., N. Y.

GENERAL COUNSEL

Parker, Chapin and Flattau, N. Y.

AUDITORS

S. D. Leidesdorf & Co., N. Y.

EXECUTIVE OFFICES

111 Eighth Avenue, New York, N. Y. 10011

Annual Meeting
Fourth Wednesday in May
Shares Listed
New York Stock Exchange—ISD



INTERSTATE DEPARTMENT STORES, INC.